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9 Attorneys for Defendant and Counterclaimant,
Blockbuster Inc.

11 UNITED STATES DISTRICT COURT
12 NORTHERN DISTRICT OF CALIFORNIA

13 NETFLIX, INC., a Delaware corporation,

14 Plaintiff,

15 vs.

16 BLOCKBUSTER INC., a Delaware
corporation, DOES 1-50,

17 Defendants.

19 BLOCKBUSTER INC., a Delaware
corporation,

20 Counterclaimant,

21 vs.

22 NETFLIX, INC., a Delaware corporation,

23 Counterclaim Defendant.

CASE NO. C 06 2361 WHA

**BLOCKBUSTER'S
PRELIMINARY INVALIDITY
CONTENTIONS FOR U.S.
PATENT NO. 7,024,381**

Complaint Filed: April 4, 2006

25 Pursuant to Patent Local Rule 3-3 and the Court's Case Management
26 Order filed June 30, 2006, Defendant and Counterclaimant, Blockbuster Inc.,
27 hereby states its Preliminary Invalidity Contentions as to United States Patent
28 No. 7,024,381 issued on April 4, 2006, entitled "Approach for Renting Items to

Customers” (hereinafter referred to as “the ’381 Patent”).

This statement of Preliminary Invalidity Contentions is based on the information currently available to Blockbuster and is subject to revision. Discovery from Netflix and third parties remains pending, and other investigations are still in progress. Among other things, Netflix has to date failed to produce multiple categories of documents requested by Blockbuster related to prior art, and Netflix delayed producing more than 20,000 pages of documents that were due August 14, 2006, until September 13, 2006, making it impossible for Blockbuster to thoroughly review those documents prior to submitting these Preliminary Invalidity Contentions.

This statement is provided without prejudice to all rights to supplement or modify Blockbuster’s contentions as additional information is obtained, further research and analysis are completed, and patent claims are construed. This statement is also made without waiver or limitation of any attorney-client privilege, work product protection or any other privileges or evidentiary objections whatsoever.

I. INVALIDITY CONTENTIONS BASED ON 35 U.S.C. §§ 102 AND 103

A. IDENTIFICATION OF PRIOR ART

1 Prior Art Patents and Published Patent Applications

Prior art patents and published patent applications identified for purposes of these Preliminary Invalidity Contentions are listed in Exhibit A attached hereto.

2 Prior Art Publications

Prior art publications (other than published applications) identified for purposes of these Preliminary Invalidity Contentions are listed in Exhibit B attached hereto.

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1 **3 Prior Art Public Use**

2 Prior art public use, public knowledge, sales, and offers for sale
3 identified for purposes of these Preliminary Invalidity Contentions are listed in
4 Exhibit C attached hereto.

5 **B. CLASSIFICATIONS, COMBINATIONS AND MOTIVATIONS**

6 Classifications, combinations and motivations for combinations of
7 prior art are listed in Exhibits D (Part 1), E (Part 2) and F (Part 3) attached hereto.

8 **C. CLAIM CHARTS**

9 **1 Claims 1 through 13**

10 A Claim Chart for Claims 1 through 13 of the '381 Patent is attached
11 hereto as Exhibit G.

12 **2 Claims 14 through 23**

13 A Claim Chart for Claims 14 through 23 of the '381 Patent is attached
14 hereto as Exhibit H.

15 **3 Claims 24 through 33**

16 A Claim Chart for Claims 24 through 33 of the '381 Patent is attached
17 hereto as Exhibit I.

18 **4 Claims 34 through 43**

19 A Claim Chart for Claims 34 through 43 of the '381 Patent is attached
20 hereto as Exhibit J.

21 **5 Claims 44 through 51**

22 A Claim Chart for Claims 44 through 51 of the '381 Patent is attached
23 hereto as Exhibit K.

24 **II. INVALIDITY CONTENTIONS BASED ON 35 U.S.C. § 112**

25 Claims 1-51 of the '381 Patent are invalid for failing to comply with
26 the requirements of 35 U.S.C. § 112.

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1 **A. 35 U.S.C. § 112, PARAGRAPH 2**

2 The '381 Patent and all claims thereof are invalid for indefiniteness
3 under 35 U.S.C. § 112 ¶ 2.

4 Blockbuster's grounds for this contention include, without limitation,
5 that the following claim terms are indefinite:

- 6 (1) "computer-implemented method;"
- 7 (2) "renting;"
- 8 (3) "providing electronic digital information;"
- 9 (4) "attributes;"
- 10 (5) "movie rental queue;"
- 11 (6) "associated with a customer;"
- 12 (7) "ordered list;"
- 13 (8) "causing to be delivered to the customer up to a specified
14 number of movies;"
- 15 (9) "based upon the order of the list;"
- 16 (10) "selecting another movie based upon the order of the list;"
- 17 (11) "electronically updating the movie rental queue;"
- 18 (12) "determining the order of the two or more movies based upon
19 one or more preferences of the customer;"
- 20 (13) "a number of movies delivered to the customer and not yet
21 returned does not exceed the specified number;"
- 22 (14) "establishing over the Internet a rental agreement with a
23 customer that provides for charging the customer a periodic fee;"
- 24 (15) "a computer system;"
- 25 (16) "a computer that is coupled to a digital telecommunications
26 network by a digital telecommunications link;"
- 27 (17) "an electronic digital memory in the computer;"

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1 (18) “one or more sequences of computer program instructions stored
2 in the electronic digital memory which, when executed, cause the computer to
3 performer the steps of;”

4 (19) “computer-implemented steps;” and

5 (20) “movie selection criteria.

6 In addition, claims 44 through 51 of the ’381 Patent are invalid for
7 indefiniteness under § 112 ¶ 2 because they recite both an apparatus and a method
8 of using that apparatus. Such claims are invalid under 35 U.S.C. § 112 ¶ 2. *See*
9 *IPXL Holdings v. Amazon.com, Inc.*, 430 F.3d 1377, 1384-85 (Fed. Cir. 2005); *see*
10 *also Amgen, Inc. v. Chugai Pharm. Co.*, 927 F.2d 1200, 1217 (Fed. Cir. 1991) (A
11 claim is considered indefinite if it does not reasonably apprise those skilled in the
12 art of its scope).

13 “The Board of Patent Appeals and Interferences (‘Board’)
14 of the PTO . . . has made it clear that reciting both an
15 apparatus and a method of using that apparatus renders a
16 claim indefinite under section 112, paragraph 2. *Ex parte*
17 *Lyell*, 17 USPQ 2d 1548 (1990). . . . This rule is well
18 recognized and has been incorporated into the PTO’s
19 *Manual of Patent Examination Procedure*.

20 § 2173.05(p)(II) (1999) (‘A single claim which claims
21 both an apparatus and the method steps of using the
22 apparatus is indefinite under 35 U.S.C. 112, second
23 paragraph.’); *see also* Robert C. Faber, *Landis on*
24 *Mechanics of Patent Claim Drafting* § 60A (2001)
25 (‘Never mix claim types to different classes of invention
26 in a single claim.’). ”

27 IPXL, 430 F.d at 1384.

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1 **B. 35 U.S.C. § 112, PARAGRAPH 1**

2 The Court's Patent Local Rules do not require any disclosure in
3 Preliminary Invalidity Contentions concerning best-mode defenses. *Fresenius*
4 *Med. Care Holdings, Inc. v. Baxter Int'l, Inc.*, No. C 03-1431 SBA, 2006 WL
5 1329997 (N.D. Cal. May 15, 2006); *see* Pat. L.R. 3-3(d). Blockbuster provides the
6 following information as a courtesy, without prejudice to its presentation of any
7 additional or different defenses at any time.

8 Blockbuster contends that the '381 Patent and all claims thereof are
9 invalid for failure to disclose best mode as required by 35 U.S.C. § 112 ¶ 1.
10 Blockbuster's grounds for this contention include, without limitation, the following:

11 1. Claims of the '381 Patent recite selecting movies for delivery to
12 a customer. The '381 Patent does not disclose any mode of selecting movies that
13 prioritizes between requests of different customers. For example, and without
14 limitation:

15 a. The '381 Patent does not disclose any mode of selecting
16 movies for customers that takes into account how often a customer returns
17 movies and receives new ones;

18 b. The '381 Patent does not disclose any step, method,
19 device, or feature for anything known or described as "throttling."

20 2. Claims of the '381 Patent recite delivery of movies to customers
21 and delivery by mail.

22 a. The '381 Patent does not disclose any mode of delivery of
23 movie to customers by mail that includes any particular type, design, or
24 features for the envelope or package used for such delivery. Indeed, the '381
25 Patent does not refer to an envelope or packaging at all.

26 b. The '381 Patent does not disclose any particular type,
27 design, or feature for return of monies by a customer.

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1 **III. INVALIDITY CONTENTIONS BASED ON 35 U.S.C. § 101**

2 The Court's Patent Local Rules do not require any disclosure in
3 Preliminary Invalidity Contentions concerning § 101 defenses. *See* Pat. L.R. 3-
4 3(d). Blockbuster presents the following information as a courtesy, without
5 prejudice to its presentation of any additional or different defense at any time in the
6 future.

7 Claims 1-51 of the '381 Patent are invalid under 35 U.S.C. § 101.

8 **A. UNPATENTABLE SUBJECT MATTER**

9 Blockbuster contends that the '381 Patent and each and every
10 individual claim thereof are invalid under 35 U.S.C. § 101 because the subject
11 matter of each such claim is not patentable under that section or under Article I,
12 Section 8 of the United States Constitution.

13 Blockbuster's grounds for these contentions include, without
14 limitation:

- 15 1. Each such claim fails to set forth a patentable invention or
16 "discovery" by an "inventor" within the meaning of Article I, Section 8;
- 17 2. Each such claim fails to set forth a patentable invention under
18 38 U.S.C. § 101;
- 19 3. Each such patent and claim improperly attempts to provide
20 patent protection for a business method;
- 21 4. Each such patent and claim improperly attempts to provide
22 patent protection for an algorithm; and
- 23 5. Each such patent and claim otherwise fails to meet
24 Constitutional, statutory, or case law requirements for patentability.

25 **B. DOUBLE PATENTING**

26 Blockbuster further contends that the '381 patent and each claim to the
27 '381 patent are invalid under 35 U.S.C. § 101 for double patenting. Blockbuster's
28 grounds for this contention include, without limitation:

